

PUBLIC EMPLOYEES RETIREMENT BOARD MEETING

March 21, 2005

8:30 A.M.

A regular meeting of the Public Employees Retirement Board convened at 8:30 a.m., Monday, March 21, 2005, at Ameritas Life Insurance Corp. in the NewThird Conference Room, 5900 "O" Street, Lincoln, Nebraska.

The Board members were notified of this meeting by letter dated March 11, 2005. Public notice of this meeting was published in the Lincoln Journal Star and Omaha World Herald on March 13, 2005. Mr. Peters chaired the meeting and Ms. Linder recorded the minutes.

MEMBERS PRESENT:	CHARLES PETERS, CHAIR
	JULIA MOELLER, VICE-CHAIR
	ROGER REA
	DALE KAHLA
	MARK SHEPARD
	GLENN ELWELL
	CAROL KONTOR, EX-OFFICIO

MEMBERS ABSENT:	DENIS BLANK
	WILLIAM HASTINGS

NONMEMBERS PRESENT:

ANNA SULLIVAN Director	KORBY GILBERTSON Nebraska State Troopers Association
DAVE SLISHINSKY Mellon Consultants	KRISTA DAVIS State Auditor's Office
BEN MATTERN Ameritas	JASON HAYES Legislative Retirement Counsel
DALE RATHE Retired School Plan Member	TERESA ZULAUF Internal Auditor
JOE SCHAEFER Legal Counsel	JANE HANSEN Retirement Plan Supervisor
JAN FOX Training Supervisor	RANDY GERKE Accounting and Finance Manager
NADINE AULT Training Specialist	SHEILA LINDER Administrative Assistant
JOHN WINKELMAN Training Specialist	

Agenda Items No. 1 and 2 - Meeting Called to Order: Chairperson Peters called the March 21, 2005, Board Meeting to order at 8:32 a.m. Present at roll call: C. Peters, J. Moeller, R. Rea, D. Kahla, M. Shepard, G. Elwell, and C. Kontor. Absent: D. Blank and W. Hastings.

Agenda Item No. 3 - Approval of Minutes: Ms. Moeller moved that the minutes of the February 28, 2005, Board Meeting be approved. Motion was seconded by Mr. Kahla. Members voted as follows: For: J. Moeller, R. Rea, D. Kahla, M. Shepard, G. Elwell, and C. Peters. Against: None. Motion carried.

Agenda Item No. 4 - Approval of Budget Status Report & February Retirement Report: Ms. Moeller moved to approve the budget status report and paying the retirements on the February Retirement Report. Motion was seconded by Mr. Rea. Members voted as follows: For: R. Rea, D. Kahla, M. Shepard, G. Elwell, C. Peters, and J. Moeller. Against: None. Motion carried.

Ms. Sullivan reported that the Budget hearing was March 11. Additional material was provided to the committee after visiting with the fiscal analyst. She distributed a copy of a preliminary recommendation for program 041 (operating budget). She broke out what increases are needed for tech expenses, rent increase, education related expenses, continued temporary services to convert member information from microfilm to image, medical services for the independent exams, and legal services. This was submitted to the committee the day of the hearing. Ms. Sullivan also distributed a break out that the Fiscal Office and Appropriations Committee requested of our technology expenses through 2010. We are making payments through a master lease purchase payment for the technology project. There are 22 servers to support the system. The normal replacement for equipment is three to five years. The budget request is now in front of the Appropriations Committee.

Agenda Item No. 5 - Public Comments or Correspondence from Citizens: There were no public comments or correspondence from citizens with business not scheduled on the agenda.

Ms. Moeller asked if Larry Dix had contacted Ms. Sullivan regarding the creation of a program to assist in the manner in which the counties are reporting. Ms. Sullivan stated she has received a letter from Mr. Dix. The process is being reviewed. There have been difficulties from time to time with the transmission of data and collecting files.

Agenda Item No. 6 - Member Group Comments: Korby Gilbertson, an attorney and lobbyist for the State Troopers Association of Nebraska (STAN), addressed the Board. She stated she was present to discuss a couple of issues regarding state troopers and positions they have taken in the past on legislative bills that increase the contribution rate. In light of the statutory directive that the state pick up the difference if there is no corresponding benefit, the state troopers have maintained they would always contribute their fair share. They will stick with what the actuary says and do what they need to in order to keep the fund solvent. There has been a good deal of discussion about a long-term solution for the contribution rate. Mr. Peters stated the cooperation of the State Patrol is much appreciated. With regard to the long term projections received last month, Mr. Rea asked how the decisions are made whether or not to support the contribution rate increases. Ms. Gilbertson stated it is basically done by the STAN

board. She also stated there is a huge need for all members to understand the importance of the defined benefit plan, and the normal cost associated with the plan benefits. Ms. Sullivan stated we are working on patrol retirement training; the educational part deals with helping members understand the funding, defining normal costs, and investment return. Ms. Gilbertson stated they are going to be meeting in mid-April and may try to get with us to set something up. Mr. Elwell suggested having Sterling Financial added to the curriculum for new troopers and maybe someone from Retirement coming to the training academy. He stated another option would be having someone provide training at their annual inservice that everyone is required to attend every other year in Grand Island, but it would involve having someone there once every other week.

Agenda Item No. 7 - Legislative Update: Ms. Sullivan reviewed the legislative tracking list provided to the Board. LB 365 provides that any member of the board may be active or retired. LB 447 provides for a health care account for state employees, allowing money to be set aside in a 401(h) account for savings for medical expenses. It also provides for the contribution rate for state employees to go be a flat rate of 4.8%. Mr. Elwell asked how the Retirement Committee received the information presented at the hearing. Ms. Sullivan stated there was concern about the cost. NAPE members testified. One person that testified was opposed because the unused money set aside could not be passed on to beneficiaries upon the member's death. Ms. Sullivan testified in a neutral capacity.

LB 493 was combined with LB 144 and has been advanced. The bill deals with school statements. LB 503 is a priority bill and now includes provisions of LB 368, LB 411, LB 412, and LB 494. LB 364 has been identified as a committee priority bill also.

LB 503 is sitting on final reading. We did request an additional staff person as a result of the requirement in LB 503 to sample or test the School and County employers.

Mr. Rea moved to approve the legislative report. Mr. Elwell seconded the motion. Members voted as follows: For: D. Kahla, M. Shepard, G. Elwell, C. Peters, J. Moeller, and R. Rea. Against: None. Motion carried.

Agenda Item No. 8 - Actuarial Report: Mr. Slishinsky distributed the Equal Retirement Benefit Fund (ERBF) reports for the State and County plans for the fiscal year ending December 31, 2004. Mr. Slishinsky explained what the fund is, why it exists, and then reviewed the reports. The money in the fund is used to supplement an annuity when members who contributed prior to 1984 elect an annuity. If they elect to take a lump sum they do not receive this benefit.

Ms. Sullivan stated there will be a presentation at the State Capitol this afternoon at 2:00 p.m. to cover the funding request for School, Judges, and Patrol, with some history on the various funds included in the School plan and funding methodology.

A copy of a news release regarding Mellon selling a part of their business had been provided to the Board. Mr. Slishinsky reported Mellon did a strategic review of their business and decided they wanted to focus more on investment management and sold the consulting and

outsourcing portion to Affiliated Computer Services, Inc. The name will revert to Buck Consultants, a subsidiary of ACS.

Excuse Member: Mr. Blank is out of state. Mr. Rea moved to excuse Mr. Blank and Judge Hastings from the meeting. Ms. Moeller seconded the motion. Members voted as follows: For: M. Shepard, G. Elwell, C. Peters, J. Moeller, R. Rea, and D. Kahla. Against: None. Motion carried.

The Board took a break at 10:20 p.m. and reconvened at 10:38 a.m.

Agenda Item No. 9 - Ameritas Annual Report: Mr. Mattern gave a brief history of Ameritas. Ameritas provides the "back office services" for the state, providing the participant recordkeeping; all of the plan accounting for the DCP, State and County plans; the website connection; and the voice response. They give instructions to the custodian, State Street Bank. They do not hold any money or investments.

Mr. Mattern then reviewed the Annual Report for the State and County Defined Contribution Plans, the State and County Cash Balance Plans, and the Deferred Compensation Plan. A copy of the report can be reviewed at the NPERS office.

Ms. Sullivan stated the record-keeping contract is up June 30 of 2006 and we will be seeking bids for the contract in advance of the contract end date.

Mr. Peters thanked Mr. Mattern for the outstanding report and for his hospitality in hosting the PERB Meeting today.

Agenda Item No. 10 - State/County/DCP Expense Charges: Ms. Sullivan provided information at the January meeting regarding the end of forfeitures in the Defined Contribution Plan due to the implementation of the Cash Balance Plan. In July of 2003 an annual charge of 10 basis points was assessed against the assets in the State, County, and DCP Plans by State Street Bank, the custodial bank. Ten basis points is 1/10th of 1% on an annual basis. In January Ms. Sullivan informed the Board there were still forfeiture dollars in the State plan. There are two issues, whether the 10 basis points could be stopped for State plan members and keep accruing for County and DCP, and whether we could refund what we have accrued in the State plan expense account and have not used.

One option is to have State Street Bank stop the accrual and have Ameritas start the accrual for County and DCP at the account level. Ameritas can assess it by plan, which State Street Bank cannot do.

Mr. Mattern stated they could begin the accrual for just for the plans needed. The fees would show up on the member statements like monthly fees we have now. There are two alternatives: (a) given the time crunch, at the end of April they could accrue the charge on the average daily fund balance times 1/12; or (b) accrue it on an average daily basis, but they would not be able to do this by April 1st. Ms. Sullivan had hoped to start by April 1 due to the new quarter and wants to stop accruing on the State plan as soon as possible. The biggest

change is how it is reported to the member. Right now, it is disclosed in the Annual Investment Report. The goal is to stop assessing the fee to the state employees because it is not needed right now with forfeitures not being depleted as quickly as had been expected. They estimate there is enough money in the forfeiture balance for another 18 months.

Mr. Rea moved to implement moving the expense fees for the use of paying operating expenses of NPERS for the State, County, and DCP plans from State Street Bank to Ameritas within a timeframe that meets the needs of all the parties. Ms. Moeller seconded the motion. Members voted as follows: For: M. Shepard, G. Elwell, C. Peters, J. Moeller, R. Rea, and D. Kahla. Against: None. Motion carried.

Ms. Sullivan had proposed in January finding a way to reimburse the 10 basis points accrual to State members on a pro rata basis. Mr. Schaefer said that when a statute states "you may assess a reasonable fee" it means you may assess a fee, but it does not go beyond that. You can stop the fee and reassess when needed, but there is no authority to refund the fee.

Mr. Mattern introduced Todd Reimers, Vice President of Retirement Plans at Ameritas. Mr. Reimers welcomed the Board to Ameritas and thanked the Board for coming.

The Board took a break for lunch at 12:06 p.m. and resumed at 12:32 p.m.

Agenda Item No. 12 - Investment Council Update: Ms. Kontor reported the Council has not met since the last PERB Meeting. They have been busy working on their annual report. She noted there is a minor correction in that the annual rate of return for the Cash Balance Benefit by .1%. At the last meeting it was reported as 11.1% and the final number is 11.0%. Year to date the Wilshire 5000 is down about 1.4 %. International investments are still doing very well and are up 2.9%. The bond index is about flat.

Agenda Item Nos. 13 and 14 - Director's Report; Final Copy – Agency Annual Report to the Legislature: Ms. Sullivan reported this has been a very busy month due to the Legislature being in session. The annual report will be presented to the Retirement Committee this Wednesday. Ms. Sullivan will be working on the deferred comp annuity contract and the record-keeping contract. The State and County audit will be starting the first week in April. Mr. Schaefer has been working a good deal on legislation and legal matters. Ed Services is working on the annual investment report and the state employers' manual. They have completed work on the county employers' manual. They will be starting the School employer workshops. They are also doing special "Retirement 101" sessions for state agencies, which are going very well. The call center had an increase in visitors during the state basketball tournaments. The accounting area sent an update to the schools. Ms. Sullivan stated the agency works hard to educate employers and members of the plans. She also stated the agency has a great management team that works hard for the agency. The focus for the coming months is working on legislative work. There are challenges with communication. We are a resource for the Retirement Committee and try to make their job a little easier. We will be working to improve communication. Ms. Sullivan spent a good deal of time this month on the Annual Report. She briefly reviewed the highlights of the Annual Report and welcomed anyone who is interested to attend the presentation to the Retirement Committee on March 23rd.

She has received requests for information on our defined contribution experience. Someone from the California senate has contacted her to come to California to speak. She has also been contacted by the *Plan Sponsor* magazine. At the legislative conference in Washington in February she visited our house members and senators. She has since received a call from Senator Ben Nelson's office. There is a possibility if there are hearings on private accounts, they may ask her to attend. She has not received an official request. Ms. Moeller stated she would like to see everyone be able to take advantage of Ms. Sullivan's knowledge. Mr. Kahla would encourage Ms. Sullivan to go to the U.S. Senate if requested. Mr. Rea suggested obtaining more information on what they want in California and what kind of hearing they are having. It may be beneficial to others to provide the defined contribution information. Mr. Rea suggested providing the Benefit Adequacy Study.

Ms. Sullivan also stated there is a request from a UNL legal professor who is interested in doing a study on State and County retirees that have taken lump sums.

Ms. Sullivan has also received a request from the non-teachers school employee retirement systems of Missouri to speak to them in July. Ms. Moeller moved to authorize Ms. Sullivan to attend at her discretion. Mr. Kahla seconded the motion. Members voted as follows: For: G. Elwell, C. Peters, J. Moeller, R. Rea, D. Kahla, and M. Shepard. Against: None. Motion carried.

Mr. Kahla moved to approve the final Annual Report as printed. Ms. Moeller seconded the motion. Members voted as follows: For: C. Peters, J. Moeller, R. Rea, D. Kahla, M. Shepard, and G. Elwell. Against: None. Motion carried.

Mr. Kahla moved to approve the Director's report. Mr. Elwell seconded the motion. Members voted as follows: For: J. Moeller, R. Rea, D. Kahla, M. Shepard, G. Elwell, and C. Peters. Against: None. Motion carried.

Agenda Item No. 15 - Future Meetings/Agenda: An updated meeting list for 2005 was provided to the Board members. The June meeting is Thursday, June 23. Ms. Moeller will not be able to attend the July meeting due to the NACO National Conference.

Agenda Items No. 16 and 17 - Executive Session: At 1:05 p.m., Ms. Moeller moved that the Board exit Regular Session and convene in Executive Session for the purpose of discussing disability applications from plan members and other legal matters. Motion was seconded by Mr. Rea. Members voted as follows: For: R. Rea, D. Kahla, M. Shepard, G. Elwell, C. Peters, and J. Moeller. Against: None. Motion carried.

At 1:28 p.m., Mr. Kahla moved that the Board exit Executive Session and reconvene in Regular Session. Motion was seconded by Mr. Rea. Members voted as follows: For: D. Kahla, M. Shepard, G. Elwell, C. Peters, J. Moeller, and R. Rea. Against: None. Motion carried.

Mr. Kahla moved for approval of the disability application of J. Wellman. Mr. Rea seconded the motion. Members voted as follows: For: M. Shepard, G. Elwell, C. Peters, J. Moeller, R. Rea, and D. Kahla. Against: None. Motion carried.

Ms. Moeller moved to approve the payment to Mr. Ahrens, waiving the 120-day deadline for Mr. Ahrens to receive 101% of his deceased wife's retirement account. Mr. Elwell seconded the motion. Members voted as follows: For: G. Elwell, C. Peters, J. Moeller, R. Rea, D. Kahla, and M. Shepard. Against: None. Motion carried.

Mr. Rea moved to approve the Findings of Fact and Conclusions of Law and direct the chairperson to sign the Order in the matter of E. Hollinger. Mr. Kahla seconded the motion. Members voted as follows: For: C. Peters, J. Moeller, R. Rea, D. Kahla, M. Shepard, and G. Elwell. Against: None. Motion carried.

Agenda Item No. 18 - Chairperson's Comments: Mr. Peters stated that he had received a call from the Governor last week regarding the state obligation for paying the state service annuity. This matter was not addressed in the actuarial report this year, because the law was changed in 2002 to eliminate separate accounting of the state service annuity. The matter of funding was fully disclosed to both the Governor's office and to the Legislature earlier this year, and Mr. Slishinsky recalculated the state service annuity obligation in response to this inquiry from the Legislative Fiscal Office. Mr. Peters stated that it was unfair to say that the matter was not disclosed earlier, and that it is up to the Legislature to decide how to fund the current shortfall, including the portion that is tied to the state service annuity. Ms. Sullivan briefed the Governor and Lieutenant Governor on the status of all three defined benefit plans so that they were aware of additional contributions soon after the actuarial reports were released last fall.

Future Meetings/Agendas: The next meeting will be held on Monday, April 18, 2005, in the TierOne Community Meeting Room at 1221 N Street.

Adjournment: Mr. Rea moved that the meeting adjourn. Motion was seconded by Mr. Kahla. Members voted as follows: For: J. Moeller, R. Rea, D. Kahla, M. Shepard, G. Elwell, and C. Peters. Against: None. Motion carried.

The meeting adjourned at 1:42 p.m.

Anna J. Sullivan
Director